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STATE OF MONTANA
BOARD OF PUBLIC EDUCATION
AND
OFFICE OF THE
SUPERINTENDENT OF PUBLIC INSTRUCTION

AUDIT REPORT

Conducted Under Contract by
Arthur Andersen & Co.

June 30, 1978

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MONTANA
STATE CAPITOL • HELENA

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STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
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MORRIS L. BRUSETT
LEGISLATIVE AUDITOR

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FINANCIAL-COMPLIANCE AND CONTRACTED AUDITS
STAFF LEGAL COUNSEL
JOHN W. NORTHEY

November 1978

The Legislative Audit Committee
of the Montana State Legislature:

Transmitted herewith is the report on the audit of the Office of Public Instruction and the Board of Public Education for the year ended June 30, 1978.

The audit was conducted by Arthur Andersen and Co., Certified Public Accounts under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The agencys' written responses to the report recommendations are included in the back of the audit report.

Respectfully submitted,

Morris L. Brusett

Morris L. Brusett, C.P.A.
Legislative Auditor

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STATE OF MONTANA

BOARD OF PUBLIC EDUCATION
AND
OFFICE OF THE SUPERINTENDENT OF PUBLIC INSTRUCTION

OVERVIEW OF AUDITS

JUNE 30, 1978

Our examinations of the financial statements of the State of Montana Board of Public Education and Office of the Superintendent of Public Instruction was conducted primarily to enable us to render opinions as to the fairness of their presentation. Included in this report are our opinions on the June 30, 1978 financial statements of the Board of Public Education and Office of the Superintendent of Public Instruction expressed in our auditors' reports dated October 5, 1978 and October 6, 1978, respectively. In conjunction with our examinations, the Montana Legislative Auditor specifically requested that our audit procedures include the following:

1. Tests of physical and accounting controls over fixed assets.

2. Tests of accounting records for certain capital projects. These records are maintained by the Department of Administration, Architecture and Engineering Bureau.

3. Tests of employee travel claims for compliance with State travel laws.

4. Performing specified audit procedures of Federal revenue sharing monies in accordance with applicable provisions of the Audit Guide and Standards for Revenue Sharing and Antirecession Fiscal Assistance Recipients, as well as testing of the distribution of this money to the school districts of the State. An audit of the individual school districts receiving the money was specifically excluded from our audit work by the Legislative Auditor. In addition, a special revenue sharing audit report was not required by the Legislative Auditor.

5. A determination that the funds received by the Office of the Superintendent of Public Instruction from traffic violation fines, corporation and individual income tax revenue, the severence coal tax and oil, gas and other mineral royalties are allocated and expended in accordance with applicable laws and regulations. In accordance with instructions from the Legislative Auditor, we did not audit collection of these funds, which are collected by other State agencies.

6. Tests of Federal grant revenue and reimbursements in accordance with applicable Federal guidelines.

7. Tests of the Board of Public Education's Fire Services Training School financial transactions and account balances and tests for compliance with related laws.

8. Review of the Agencies' compliance with applicable statutes and regulations.

9. We were instructed not to audit CETA funds received by the Office of the Superintendent of Public Instruction as these funds will be audited separately.

During our review of Federal revenue sharing monies, we were informed that the Use Report had not been requested by the Federal government; consequently, the report had not been prepared by the State of Montana Office of Budget and Program Planning. Accordingly, we were unable to perform the audit work on this report required by the Audit Guide and Standards for Revenue Sharing and Antirecession Fiscal Assistance Recipients.

Other items which came to our attention during our examinations are included in this report under the title "Memorandum of Suggested Improvements in Accounting Procedures and System of Internal Control". These items were considered by us during our examination; however, they do not modify the opinions expressed in our auditors' reports.

The financial statements of the State of Montana Board of Public Education and the Office of the Superintendent of Public Instruction as of June 30, 1976 and for the year then ended were audited by other public accountants who issued their reports thereon dated August 30, 1976. Their report on the State of Montana Board of Public Education was unqualified. Their report on the State of Montana Office of the Superintendent of Public Instruction was unqualified on all funds except the Public School Equalization (ERA) fund and the Audio Visual and Media Library (RA) fund. Their report on the Public School Equalization (ERA) fund and the Audio Visual and Media Library (RA) fund contained an adverse opinion because of "... the financial statements do not give proper accounting recognition to the following:

> $14,765 of unrecorded liabilities in the Public School Equalization (ERA) fund, and
>
> Approximately $15,000 of expenditures that were recorded as a prepaid item in the Audio Visual and Media Library (RA) fund."

In addition, the June 30, 1976 auditors' report stated that "the Office of the Superintendent of Public Instruction had not maintained a record of its general fixed assets, and accordingly a statement of general fixed assets, required by generally accepted accounting principles, is not included in the accompanying financial statements."

STATE OF MONTANA
BOARD OF PUBLIC EDUCATION
AND
OFFICE OF THE SUPERINTENDENT OF PUBLIC INSTRUCTION

EX OFFICIO, ELECTIVE,
APPOINTIVE AND ADMINISTRATIVE OFFICIALS

JUNE 30, 1978

BOARD OF PUBLIC EDUCATION

Ex Officio Members:

Thomas L. Judge	Governor of the State of Montana
Georgia Rice	Superintendent of Public Instruction
Lawrence K. Pettit	Commissioner of Higher Education

Appointed Members:

Earl J. Barlow, Chairman	Term Expires February 1980
Carolyn M. Frojen	Term Expires February 1982
Allen D. Gunderson	Term Expires February 1984
George A. Johnson	Term Expires February 1979
Marjorie W. King	Term Expires February 1981
Harriet C. Meloy	Term Expires February 1983
Enid O'Leary	Term Expires February 1985

Administrative Officials:

Richard L. Reese	Assistant to the Board
Marilyn K. Miller	Assistant to the Board
James Macklin	Fire Services Training School Director-Resigned July, 1978
Jens Bolstad	Fire Services Training School Interim Director
Ira Bryant	Fire Services Training School Director-Effective October, 1978

OFFICE OF THE SUPERINTENDENT OF PUBLIC INSTRUCTION

Elected Official:

Georgia Rice	Superintendent of Public Instruction

Administrative Officials:

Bob Stockton	Financial Services Department Administrator
Larry Key	Vocational and Occupational Services Department Administrator
Dick Boyer	Administrative Services Department Administrator
Alve Thomas	Basic Instructional Services Department Administrator

STATE OF MONTANA

BOARD OF PUBLIC EDUCATION
AND
OFFICE OF THE SUPERINTENDENT OF PUBLIC INSTRUCTION

SUMMARY OF RECOMMENDATIONS

JUNE 30, 1978

As a separate section in the front of each audit report, we include a listing of all recommendations together with a notation as to whether the agencies concur or do not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the related agencies' reply thereto and also as a ready reference to the supporting comments. The full text of the recommendations and the agencies' replies thereto are included under the title "Memorandum of Suggested Improvements in Accounting Procedures and System of Internal Control".

	Page
Board of Public Education -	
The Agency should complete the physical inventory of fixed assets and update its general fixed assets records.	30
Agency Comments - We concur. These records are presently being compiled.	
The Agency should consider establishing a separate fund for the Fire Services Training School accountability.	31
Agency Comments - The Agency will consider the feasibility of this recommendation under the Statewide Budgeting and Accounting System.	

Office of the Superintendent of Public Instruction -

The Agency should update its general fixed asset records. 32

Agency Comments - We are currently summarizing and updating our fixed asset records.

The Agency and the Department of Revenue should clarify duties and responsibilities concerning calculation and funding of the State permissive levy. 34

Agency Comments - We will attempt to reach agreement with the Department of Revenue. If we cannot reach agreement, we will ask for an Attorney General opinion.

Department of Revenue Comments - This does draw attention to a serious inconsistency in the statutes. We recommend this be brought to the attention of the appropriate committees during the next legislative session.

The Office of Budget and Program Planning should take steps to resolve non-compliance with proposed use public hearing provisions of Federal revenue sharing regulations. 34

Office of Budget and Program Planning Comments - We have informed the Federal Office of Revenue Sharing that no proposed use hearing was held. We feel we are not in non-compliance because regulations did not become effective until January 1, 1977 and the budget was prepared in mid-November for presentation to the legislature on January 3, 1977.

The Office of Budget and Program Planning should determine whether notice of where and when a summary of the enacted revenue sharing budget was published as required by Federal revenue sharing regulations. 36

Office of Budget and Program Planning Comments - We have notified the Federal Office of Revenue Sharing and are in the process of providing the necessary public notification.

The Agency should establish procedures to reconcile computerized receivable records with SBAS balances. 37

Agency Comments - Procedures are being established to reconcile all records on a monthly basis.

The Federal and private revenue fund account for the Traffic Education Mobile Simulator fund should be closed and any balances transferred to the revolving account. 38

Agency Comments - We concur with this recommendation.

STATE OF MONTANA

BOARD OF PUBLIC EDUCATION

FINANCIAL STATEMENTS

AS OF JUNE 30, 1978

TOGETHER WITH

AUDITORS' REPORT

ARTHUR ANDERSEN & CO.

BOISE, IDAHO

To the Legislative Audit Committee
of the Montana State Legislature:

We have examined the balance sheet of the State of Montana Board of Public Education as of June 30, 1978, and the related statement of revenues, expenditures and changes in fund balance for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The State of Montana Board of Public Education has not maintained a record of its general fixed assets, and accordingly a statement of general fixed assets, required by generally accepted accounting principles, is not included in this financial report.

In our opinion, the accompanying financial statements present fairly the financial position of the State of Montana Board of Public Education as of June 30, 1978, and the results of its operations and changes in fund balance for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

Boise, Idaho,
October 5, 1978.

STATE OF MONTANA

BOARD OF PUBLIC EDUCATION

BALANCE SHEET

JUNE 30, 1978

ASSETS:	
Encumbered appropriations	$ 896
Expense advances and other	522
	$1,418
LIABILITIES AND FUND BALANCE:	
Accrued support expenditures	$ 896
Reversion due State of Montana	522
	1,418
Fund Balance	-
	$1,418

The accompanying notes are an integral part of this financial statement.

STATE OF MONTANA

BOARD OF PUBLIC EDUCATION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED JUNE 30, 1978

	BUDGET	ACTUAL
REVENUES:		
State Appropriations	$206,897	$196,899
EXPENDITURES:		
Fire Services Training School	139,910	135,760
Office Administration	48,437	42,823
Board Administration	18,550	17,794
	206,897	196,377
EXCESS OF REVENUES OVER EXPENDITURES	$ -	522
REVERSION TO STATE OF MONTANA		522
FUND BALANCE, beginning of year		-
FUND BALANCE, end of year		$ -

The accompanying notes are an integral part of this financial statement.

STATE OF MONTANA

BOARD OF PUBLIC EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1978

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting

The State of Montana Board of Public Education (the Agency) generally follows the modified accrual basis of accounting and financial reporting as described in the American Institute of Certified Public Accountants' Industry Audit Guide for Audits of State and Local Governmental Units. The modified accrual method of accounting provides for recognition of revenue as received in cash, except for revenues susceptible to accrual (i.e., measurable and available to finance the Agency's operations) and material revenues not received at the normal time of receipt. Expenditures are recorded on an accrual basis, except for prepaid expenses which normally are not recorded.

Fund Accounting

The accounts of the Agency are maintained in accordance with the principles of fund accounting which require the classification of resources into funds in accordance with desired accountability objectives. For 1978 and prior years, the Agency has recorded all operational activity in a single general fund.

General Fixed Assets

Fixed assets are recorded as expenditures in the applicable fund at the time of purchase. The Agency has not maintained adequate records of its general fixed assets and, accordingly, a statement of general fixed assets required by generally accepted accounting principles is not included in this financial report.

Statewide Budgeting and Accounting System

These financial statements have been prepared in accordance with generally accepted accounting principles; consequently, this statement differs from what was recorded in the Statewide Budgeting and Accounting System.

Sick Leave and Vacation Pay

The Agency does not record an accumulated liability for employee sick leave and vacation pay.

2. BUDGET REPORTING:

The budgetary financial information reported in these financial statements includes only fiscal 1978 state appropriations. No grants are received by the Agency and the unexpended portion of state appropriations reverts to the state annually.

3. OFFICE RENTAL:

Administrative office space is provided to the Agency without charge by the State of Montana.

4. RETIREMENT PLAN:

All permanent employees of the Agency are covered by the Public Employees Retirement System retirement plan which is contributory. The unfunded past service costs and the actuarially computed value of vested benefits were not readily available for members of the plan employed by the Agency.

5. LITIGATION:

The Agency has been named in a civil action brought in United States District Court, District of Montana. The plaintiffs allege that they were denied due process of law in violation of both the Fourteenth Amendment and Section 1983 of the Federal Civil Rights Act in that a two-year academic program of the Missoula Technical Center, in which they were enrolled, was terminated at the end of the first year. The claim seeks damages of $1,500,000.

The case has been pending since December, 1977. The initial trial on the issue of liability only was held on October 26, 1976. The matter is now before the United States District Judge for a decision. It is the Agency's intention and the intention of its legal counsel to vigorously defend this action. In the opinion of the Agency and its counsel, the likelihood of the Agency being held liable for monetary damages in this action is remote.

STATE OF MONTANA

OFFICE OF THE SUPERINTENDENT OF PUBLIC INSTRUCTION

FINANCIAL STATEMENTS

AS OF JUNE 30, 1978

TOGETHER WITH

AUDITORS' REPORT

ARTHUR ANDERSEN & CO.

BOISE, IDAHO

To the Legislative Audit Committee
of the Montana State Legislature:

We have examined the balance sheets of the State of Montana Office of the Superintendent of Public Instruction as of June 30, 1978, and the related statements of revenues, expenditures and changes in fund balances for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The State of Montana Office of the Superintendent of Public Instruction has not maintained a record of its general fixed assets, and accordingly a statement of general fixed assets, required by generally accepted accounting principles, is not included in this financial report.

In our opinion, the accompanying financial statements present fairly the financial position of the State of Montana Office of the Superintendent of Public Instruction as of June 30, 1978, and the results of its operations and changes in its fund balances for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

Boise, Idaho,
October 6, 1978.

STATE OF MONTANA

OFFICE OF THE SUPERINTENDENT OF PUBLIC INSTRUCTION

BALANCE SHEETS

JUNE 30, 1978

ASSETS	GENERAL FUND	EARMARKED REVENUE FUNDS: ADDITIONAL STATE LEVY FOR STATE DEFICIENCY	TRAFFIC AND SAFETY EDUCATION	PUBLIC SCHOOL EQUALIZATION	STATE PERMISSIVE SCHOOL LEVIES	VO TECH CENTER TUITION
Cash:						
On deposit with State Treasurer	$ -	$106,587	$861,003	$5,202,831	$ 429,755	$808
In bank	-	-	-	1,000	-	-
	-	106,587	861,003	5,203,831	429,755	808
Receivables:						
Loans due from other state agencies	-	-	-	-	2,553,831	-
Accounts receivable	5,425	-	237	-	-	-
Other	17,078	-	-	-	-	-
	22,503	-	237	-	2,553,831	-
Less - Allowance for doubtful accounts	(5,425)	-	(237)	-	-	-
	17,078	-	-	-	2,553,831	-
	$17,078	$106,587	$861,003	$5,203,831	$2,983,586	$808
LIABILITIES AND FUND BALANCES						
Accrued liabilities	$17,078	$ -	$ 631	$ -	$ -	$ -
Loans due to other state agencies (Note 3)	-	-	-	5,203,831	2,500,000	-
	17,078	-	631	5,203,831	2,500,000	-
Fund balance (deficit)	-	106,587	860,372	-	483,586	808
	$17,078	$106,587	$861,003	$5,203,831	$2,983,586	$808

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA

OFFICE OF THE SUPERINTENDENT OF PUBLIC INSTRUCTION

BALANCE SHEETS

JUNE 30, 1978

	FEDERAL AND PRIVATE REVENUE FUNDS				
	DONABLE PROPERTY (Note 1)	PUBLIC INSTRUCTION	FEDERAL REVENUE SHARING	TRAFFIC EDUCATION MOBILE SIMULATOR	PUBLIC INSTRUCTION FEDERAL AND PRIVATE GRANT CLEARANCE FUND
ASSETS					
Cash:					
On deposit with State Treasurer	$ -	$184,501	$ -	$3,049	$571,746
In bank	-	-	-	-	-
	-	184,501	-	3,049	571,746
Receivables:					
Loans due from other state agencies	-	-	-	-	150,000
Accounts receivable	-	6,599	-	-	-
Other	-	-	-	-	-
	-	6,599	-	-	150,000
Less - Allowance for doubtful accounts	-	(6,599)	-	-	-
	-	-	-	-	150,000
	$ -	$184,501	$ -	$3,049	$721,746
LIABILITIES AND FUND BALANCES					
Accrued liabilities	$ -	$ 47,013	$ -	$ -	$619,011
Loans due to other state agencies (Note 3)	-	140,000	-	-	-
	-	187,013	-	-	619,011
Fund balance (deficit)	-	(2,512)	-	3,049	102,735
	$ -	$184,501	$ -	$3,049	$721,746

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA

OFFICE OF THE SUPERINTENDENT OF PUBLIC INSTRUCTION

BALANCE SHEETS

JUNE 30, 1978

ASSETS	REVOLVING ACCOUNT FUNDS: SCHOOL LUNCH PROGRAM	AUDIO VISUAL AND MEDIA LIBRARY	TRAFFIC EDUCATION MOBILE SIMULATOR	PUBLIC INSTRUCTION
Cash:				
On deposit with State Treasurer	$80,529	$ 70,273	$ 9,079	$25,747
In bank	-	-	-	-
	80,529	70,273	9,079	25,747
Receivables:				
Loans due from other state agencies	-	-	-	-
Accounts receivable	1,161	55,140	2,070	-
Other	-	-	-	5,029
	1,161	55,140	2,070	5,029
Less - Allowance for doubtful accounts	(1,161)	(55,140)	(2,070)	-
	-	-	-	5,029
	$80,529	$ 70,273	$ 9,079	$30,776
LIABILITIES AND FUND BALANCES				
Accrued liabilities	$ -	$ 18,938	$ 6,000	$ 9,580
Loans due to other state agencies (Note 3)	-	-	-	10,000
	-	18,938	6,000	19,580
Fund balance (deficit)	80,529	51,335	3,079	11,196
	$80,529	$ 70,273	$ 9,079	$30,776

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA

OFFICE OF THE SUPERINTENDENT OF PUBLIC INSTRUCTION

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 1978

			EARMARKED REVENUE FUNDS					
	GENERAL FUND		ADDITIONAL STATE LEVY FOR STATE DEFICIENCY		TRAFFIC AND SAFETY EDUCATION		PUBLIC SCHOOL EQUALIZATION	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
REVENUES:								
Taxes	$ -	$ -	$20,000	$ 384,203	$ -	$ -	$65,677,734	$ 4,232,039
Reimbursements	-	-	-	-	-	-	-	-
Federal grants	-	-	-	-	-	-	2,150,266	4,426,414
Income transfers	-	-	-	-	-	-	-	15,203,592
Federal revenue sharing	-	-	-	-	-	-	-	-
Fines	-	-	-	-	1,547,855	837,867	-	-
Service fees	-	-	-	-	-	-	-	-
Licenses and permits	49,000	47,576	-	-	63,500	63,510	-	-
Sale of documents, merchandise and property	2,000	479	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
	51,000	48,055	20,000	384,203	1,611,355	901,377	67,828,000	23,862,045
EXPENDITURES:								
Chief state school officer administration	1,272,508	1,249,804	-	-	43,313	32,380	-	-
Educational services programs	42,962,490	36,156,163	20,000	-	1,568,042	722,668	67,828,000	66,194,935
	44,234,998	37,405,967	20,000	-	1,611,355	755,048	67,828,000	66,194,935
REVENUES OVER (UNDER) EXPENDITURES	(44,183,998)	(37,357,912)	$ -	384,203	$ -	146,329	$ -	(42,332,890)
TRANSFERS IN (OUT) (Note 4)								
Intra-agency	-	(6,110,000)		(3,858,215)		(9,500)		1,304,384
Inter-agency	44,183,998	43,467,912		-		-		41,028,506
FUND BALANCE (DEFICIT), beginning of year	-	-		3,580,599		723,543		-
FUND BALANCE (DEFICIT), end of year	$ -	$ -		$ 106,587		$860,372		$ -

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA

OFFICE OF THE SUPERINTENDENT OF PUBLIC INSTRUCTION

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 1978

	EARMARKED REVENUE FUNDS				FEDERAL AND PRIVATE REVENUE FUNDS			
	STATE PERMISSIVE SCHOOL LEVIES		VO TECH CENTER TUITION		DONABLE PROPERTY (Note 1)		PUBLIC INSTRUCTION	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
REVENUES:								
Taxes	$6,967,385	$ 1,304,463	$ -	$ -	$ -	$ -	$ -	$ -
Reimbursements	-	-	-	-	-	-	-	-
Federal grants	-	-	-	-	-	-	7,410,360	2,523,679
Income transfers	-	-	-	-	-	-	-	-
Federal revenue sharing	-	-	-	-	-	-	-	-
Fines	-	-	-	-	-	-	-	-
Service fees	-	-	306,883	25,940	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Sale of documents, merchandise and property	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	1,000	8,800
	6,967,385	1,304,463	306,883	25,940	-	-	7,411,360	2,532,479
EXPENDITURES:								
Chief state school officer administration	-	-	-	-	-	-	7,411,360	2,074,788
Educational services programs	6,967,385	19,047,954	306,883	25,940	-	-	-	-
	6,967,385	19,047,954	306,883	25,940	-	-	7,411,360	2,074,788
REVENUES OVER(UNDER) EXPENDITURES	$ -	(17,743,491)	$ -	-	$ -	-	$ -	457,691
TRANSFERS IN (OUT) (Note 4)								
Intra-agency		14,694,399		-		-		(400,692)
Inter-agency		-		-		(174,228)		-
FUND BALANCE (DEFICIT), beginning of year		3,532,678		808		174,228		(59,511)
FUND BALANCE (DEFICIT), end of year		$ 483,586		$ 808		$ -		$ (2,512)

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA

OFFICE OF THE SUPERINTENDENT OF PUBLIC INSTRUCTION

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 1978

	FEDERAL AND PRIVATE REVENUE FUNDS						REVOLVING ACCOUNT FUNDS	
	FEDERAL REVENUE SHARING		TRAFFIC EDUCATION MOBILE SIMULATOR		PUBLIC INSTRUCTION FEDERAL AND PRIVATE GRANT CLEARANCE FUND		SCHOOL LUNCH PROGRAM	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
REVENUES:								
Taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Reimbursements	-	-	-	-	-	-	361,030	202,650
Federal grants	-	-	-	-	28,369,899	18,949,519	-	-
Income transfers	-	-	-	-	-	-	-	-
Federal revenue sharing	8,100,000	8,054,535	-	-	-	-	-	-
Fines	-	-	-	-	-	-	-	-
Service fees	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Sale of documents, merchandise and property	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
	8,100,000	8,054,535	-	-	28,369,899	18,949,519	361,030	202,650
EXPENDITURES:								
Chief state school officer administration	-	-	-	-	-	-	361,030	179,827
Educational services programs	8,100,000	-	-	(210)	28,369,899	18,786,941	-	-
	8,100,000	-	-	(210)	28,369,899	18,786,941	361,030	179,827
REVENUES OVER (UNDER) EXPENDITURES	$ -	8,054,535	$ -	210	$ -	162,578	$ -	22,823
TRANSFERS IN (OUT) (Note 4)								
Intra-agency		(6,030,568)		-		-		(14,367)
Inter-agency		-		-		(160,579)		-
FUND BALANCE (DEFICIT), beginning of year		(2,023,967)		2,839		100,736		72,073
FUND BALANCE (DEFICIT), end of year		$ -		$3,049		$ 102,735		$ 80,529

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA

OFFICE OF THE SUPERINTENDENT OF PUBLIC INSTRUCTION

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 1978

	REVOLVING ACCOUNT FUNDS					
	AUDIO VISUAL AND MEDIA LIBRARY		TRAFFIC EDUCATION MOBILE SIMULATOR		PUBLIC INSTRUCTION	
	Budget	Actual	Budget	Actual	Budget	Actual
REVENUES:						
Taxes	$ -	$ -	$ -	$ -	$ -	$ -
Reimbursements	-	-	44,000	21,150	-	-
Federal grants	-	-	-	-	-	-
Income transfers	-	-	-	-	-	-
Federal revenue sharing	-	-	-	-	-	-
Fines	-	-	-	-	-	-
Service fees	398,034	174,112	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Sale of documents, merchandise and property	-	-	-	-	-	-
Other	-	-	-	-	-	-
	398,034	174,112	44,000	21,150	-	-
EXPENDITURES:						
Chief state school officer administration	398,034	205,248	44,000	18,071	-	425,519
Educational services programs	-	-	-	-	-	-
	398,034	205,248	44,000	18,071	-	425,519
REVENUES OVER (UNDER) EXPENDITURES	$ -	(31,136)	$ -	3,079	$ -	(425,519)
TRANSFERS IN (OUT) (Note 4)						
Intra-agency		(10,300)		-		434,859
Inter-agency		-		-		-
FUND BALANCE (DEFICIT), beginning of year		92,771		-		1,856
FUND BALANCE (DEFICIT), end of year		$ 51,335		$ 3,079		$ 11,196

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA

OFFICE OF THE SUPERINTENDENT OF PUBLIC INSTRUCTION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1978

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting

The State of Montana Office of the Superintendent of Public Instruction (the Agency) generally follows the modified accrual basis of accounting and financial reporting as described in the American Institute of Certified Public Accountants' Industry Audit Guide for Audits of State and Local Governmental Units. The modified accrual method of accounting provides for recognition of revenue as received in cash except for revenues susceptible to accrual (i.e., measurable and available to finance the Agency's operations) and material revenues not received at the normal time of receipt. Expenditures are recorded on an accrual basis except for prepaid expenses which normally are not recorded.

Fund Accounting

In order to observe limitations and restrictions placed on monies received by the Agency, and to aid in accountability thereof, the accounts are maintained in accordance with the principles of "fund accounting". These principles require the classification of resources into funds in accordance with the activities or objectives specified. Accountability is maintained by establishing separate accounts, for each fund, which comprise that fund's assets, liabilities, fund balance, revenues and expenditures.

Description of Funds

A brief description of the various Agency funds are as follows:

General Fund - accounts for operational activity which does not require separate accountability.

Earmarked Revenue Funds -

Additional State Levy for State Deficiency - accounts for revenue obtained from state deficiency property tax levies and disbursements thereof. These levies are assessed to provide additional financing necessary for the state school foundation program.

Traffic and Safety Education - this fund is a responsibility center for the financing of school district driver education courses.

Public School Equalization - revenues are deposited into this fund for the purpose of financing the state school foundation program.

State Permissive School Levies - permissive school levies are deposited into this fund to provide financing for the state share of the permissive portion of the state equalization program.

Vo Tech Center Mileage - school districts may obtain additional financing for post-secondary Vo Tech centers by assessing a local property tax levy. This revenue is collected and paid to the school districts at a local level; no monies are received or disbursed by the Agency. The fund was established to provide accountability for the spending authority as appropriated by the state legislature (i.e., used for budgetary purposes, only) and has not been included in these financial statements.

Vo Tech Center Tuition - this fund accounts for tuition fees collected by Vo Tech Centers.

Federal and Private Revenue Funds -

Donable Property - this fund is a responsibility center for receiving and distributing surplus Federal property to school districts on a cost reimbursement basis. Accountability for this entity was transferred to the Department of Administration as of July 1, 1977.

Public Instruction - revenues and expenses associated with the administration of Federal and private grants are recorded in this fund.

Federal Revenue Sharing - Federal revenue sharing monies received as a secondary recipient from the State, and related expenditures, are accounted for in this fund.

Traffic Education Mobile Simulator - prior to fiscal 1978, monies received from school districts using mobile simulators in driver education courses, which served to reimburse program administration costs, were recorded in a Traffic Education Mobile Simulator Federal and Private Revenue fund. Fiscal 1978 operations have been recorded in a similar revolving fund.

Public Instruction Federal and Private Grant Clearance - this fund is a responsibility center for the receipt and distribution of Federal and private grant monies.

Revolving Account Funds -

School Lunch Program - this fund accounts for costs incurred in distributing Federally donated food and related reimbursements received from school districts.

Audio Visual and Media Library - the Agency maintains an audio visual and media library for school districts usage. Administration costs and rentals are recorded in this fund.

Public Instruction - this fund receives transfers from participating entities sufficient to reimburse a portion of the Agency's general administration costs.

Vo Tech Center - this entity was established as a responsibility center to provide financing, on a matching basis, to Vo Tech centers. As no matching monies were raised locally, the entity has not been active other than for the recording of budgetary information and, accordingly, has not been included in these financial statements.

Assets in these funds are restricted to the accountability purposes for which the funds have been established.

General Fixed Assets

Fixed assets are recorded as expenditures in the applicable fund at the time of purchase. The

Agency has not maintained adequate records of its general fixed assets and, accordingly, a statement of general fixed assets required by generally accepted accounting principles is not included in the accompanying financial statements.

Statewide Budgeting and Accounting Systems

These financial statements have been prepared in accordance with generally accepted accounting principles; consequently, these statements differ from what was recorded in the Statewide Budgeting and Accounting System.

Sick Leave and Vacation Pay

The Agency does not record an accumulated liability for employee sick leave and vacation pay.

2. CAPITAL PROJECTS:

The Architecture and Engineering Bureau of the State of Montana Department of Administration is administering appropriations for two capital projects associated with the Agency. The funds are available on a matching basis and were appropriated for the construction of Vo Tech buildings in Billings and Great Falls. A schedule of appropriations and related expenditures is as follows:

	Billings Vo Tech Center	Great Falls Vo Tech Center
Total appropriated	$1,812,500	$2,000,000
Prior years' expenditures	-	1,956,456
Expenditures during 1978	-	22,621
Total expenditures	-	1,979,077
Remaining spending authority	$1,812,500	$ 20,923

No expenditures have been made on the Billings project as local matching funds have not yet been made available.

3. LOANS DUE TO OTHER STATE AGENCIES:

Loans due to other state agencies are unsecured, short-term borrowings from other state agencies and will be retired with fiscal 1979 revenues. No interest is charged on these loans and none has been imputed for financial statement purposes.

4. FUND TRANSFERS:

Intra-agency fund transfers occur among the Agency's funds for such reasons as ease of distribution to school districts, transfers of administration cost reimbursements to the Public Instruction revolving fund, and to comply with state code requirements.

Inter-agency fund transfers result from transferring of fund responsibility to or from another state agency. Corrections of prior year grant revenue or expenditure where the related grant term has expired, thereby necessitating a transfer to the grantor, are also included.

5. BUDGET REPORTING:

The budgetary financial information reported in these financial statements includes the unexpended portion of prior year continuing Federal and private grants.

6. LEASE COMMITMENTS:

The Agency leases two buildings under lease agreements expiring in November, 1979, and October, 1984. Rent expense for 1978 was $88,200. Required future annual rent payments are as follows:

Fiscal Year Ending	Amount
1979	$88,200
1980	$44,450
1981	$13,200
1982	$13,200

Fiscal Year Ending	Amount
1983	$13,200
1984	$13,200
1985	$ 4,400

No rent is charged for the office space used by the Agency in the capitol building.

7. RETIREMENT PLAN:

All permanent employees of the Agency are covered by the Public Employees Retirement System Retirement Plan which is contributory. The unfunded past service costs and the actuarially computed value of vested benefits were not readily available for members of the plan employed by the Agency.

8. LITIGATION:

In February, 1977, six employees of the former Superintendent of Public Instruction brought an action in State District Court alleging a wage claim, blacklisting, violation of the Montana code of fair practices act, discrimination, and claims of breech of contract, intentional negligence and the tort of outrage on the grounds the Superintendent did not comply with a section of the affirmative action plan of the office. The plaintiffs are seeking damages of $95,500 per year for back wages mitigated by the employees earnings since January 1, 1977, $60,000 for pain and suffering, attorney's fees and punitive damages of $651,500. The district court has dismissed all of the claims except the blacklisting and political discrimination claims and the claim of violation of the Montana code of fair practices act. The plaintiffs have appealed to the Montana Supreme Court where the matter is pending.

The Superintendent of Public Instruction has also been named in an action brought in Federal district court in September, 1978, alleging failure to provide free, appropriate public education for a handicapped child in the least restrictive environment. The complaint seeks punitive damages of $25,000, attorney's fees and $1,000 per day from August 28, 1978 until the child is admitted to one of the educational placements demanded in the complaint.

Although all of the facts supporting the plaintiff's claims have not been developed through discovery, the Agency and its legal counsel believe there are adequate grounds for defense against these claims. Further, the Agency is not liable for punitive damages and attorney's fees since the State of Montana has retained its immunity against such claims.

STATE OF MONTANA

BOARD OF PUBLIC EDUCATION
AND
OFFICE OF THE
SUPERINTENDENT OF PUBLIC INSTRUCTION

MEMORANDUM OF SUGGESTED IMPROVEMENTS IN ACCOUNTING PROCEDURES AND SYSTEM OF INTERNAL CONTROL

JUNE 30, 1978

ARTHUR ANDERSEN & CO.

999 MAIN STREET
BOISE, IDAHO 83702
(208) 345-0937

Legislative Audit Committee
Montana State Legislature:

Gentlemen:

The accompanying memorandum includes suggestions for improvement of accounting procedures and internal accounting control measures that came to our attention as a result of our examinations of the financial statements of the State of Montana Board of Public Education and Office of the Superintendent of Public Instruction for the year ended June 30, 1978. The matters discussed herein were considered by us during our examinations and they do not modify the opinions expressed in our auditors' reports on such financial statements.

In accordance with generally accepted auditing standards, we performed a review and evaluation of existing internal accounting controls for the purpose of providing a basis for reliance thereon in determining the nature, timing and extent of the audit tests applied in connection with our examinations of the Agencies' 1978 financial statements. While certain matters which came to our attention during the reviews are presented in the accompanying memorandum for the consideration of management, such reviews are not designed for the purpose of making detailed recommendations and would not necessarily disclose all weaknesses in the existing systems.

The accompanying memorandum also includes comments and suggestions with respect to other financial and administrative matters which came to our attention during the course of our examinations of the financial statements. These matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving accounting, control and other financial and administrative practices and procedures.

Very truly yours,

Arthur Andersen & Co.

BOARD OF PUBLIC EDUCATION

Fixed Asset Accountability

The Agency has not maintained complete and updated records of general fixed assets. Current records for the Agency's administrative offices and the Fire Services Training School are incomplete as to cost and date of acquisition. In addition, the fixed assets have not been tagged for identification and control. A physical inventory of the Agency's administrative office fixed assets was in process during our review. The Fire Services Training School completed a physical inventory in June, 1977.

The Agency should complete the physical inventory of all fixed assets and tag all fixed assets for identification and control. Cost, date of acquisition and other relevant information should be accumulated and documented for all fixed assets and summarized by major asset category.

Agency Comments - We concur. These records are presently being compiled.

Fire Services Training School Accountability

The accountability for the Fire Services Training School was transferred to the Agency in 1978. Operations of the school are funded through a specific state appropriation and the Agency has maintained separate accounts concerning the school expenditures during 1978. However, the school's operations have been combined with Agency administration into a single general fund.

To strengthen accountability for the Agency, we recommend a separate fund be established for the operations of the Fire Services Training School.

Agency Comments - The Agency will consider the feasibility of this recommendation under the Statewide Budgeting and Accounting System.

OFFICE OF THE SUPERINTENDENT OF PUBLIC INSTRUCTION

Fixed Asset Accountability — The Agency has not maintained complete and updated records of general fixed assets. Currently, records of the Agency are not complete as to cost and date of acquisition. A physical inventory of fixed assets was taken in June, 1977.

The Agency should update its physical inventory and tag all fixed assets for identification and control. Cost, date of acquisition and other relevant information should be accumulated and documented for all fixed assets and summarized by major asset category.

> Agency Comments - Current fixed asset records are contained in three separate files. Each file contains assets which were purchased while a particular accounting system was in place. At the present time the accounting bureau is working to combine these three files into one complete file which will contain all the pertinent information such as purchase dates and costs as correct as possible. At the time this task is completed another physical inventory will be taken to assure the accuracy of the new file.

State Permissive Levy Funding — Montana State Code Section 75-6922(3) states, "The director of the Department of Revenue shall annually set a levy on all the property of the state which

will produce enough revenue to fund the permissive levy deficiency...." and the revenue thereby produced "...shall be distributed to the elementary and high school districts in accordance with their entitlements as determined by the Superintendent of Public Instruction according to the provisions of subsections (1) and (2) of this section." Subsections (1) and (2) indicate that if local property tax levies are not sufficient to pay the permissive amount in full, the deficiency shall be paid to the districts from the state permissive levy fund.

For fiscal 1978, the Department of Revenue set a levy for an amount less than that which had been calculated as the state's share by the Agency. Proceeds from the levy were insufficient to fund the state's share of the permissive entitlement.

We recommend the Agency and Department of Revenue seek an opinion from the Attorney General's office or otherwise clarify duties and responsibilities concerning calculation and funding of the state permissive levy. Further, procedures should be clearly defined to ensure school districts are fully funded with their entitlements as set forth in the Montana State Code.

Agency Comments - We will attempt to reach an agreement with the Department of Revenue, that the levy should be set so as to raise the certified amount. If we cannot get agreement, we will ask for an opinion of the Attorney General.

Department of Revenue Comments - A definite problem exists concerning the authority for establishing the millage requirements for the state property tax portion of the school foundation program. The responsibility for establishing the dollar amount of the deficiency rests with the Superintendent of Public Instruction. The responsibility for setting the state-wide property tax levy rests with the Department of Revenue. The problems which resulted in the 1978 levy being less than required to fund the state's share of the permissive entitlement were not as simple as the report indicates. However, it does draw attention to a serious inconsistency in the statutes. The Department of Revenue does not believe an Attorney General's opinion would shed any light on the problem because the statutes are clear even though they conflict. The department recommends that this issue be brought to the attention of the appropriate committees during the next legislative session for correction. Corrective legislation could be enacted prior to establishing state levies next August.

Revenue Sharing Proposed Use Hearing

Federal revenue sharing regulations, subpart B, Section 51.13 require at least one public hearing on the possible use of revenue sharing funds be conducted at least seven days prior to the presentation of the budget to the legislature for any budget enacted on or after January 1, 1977.

The budgets for fiscal 1978 and 1979 were presented to the State of Montana legislature in the first week of January, 1977. No proposed use hearing had been held concerning revenue sharing funds prior to presenting the budget.

We recommend that steps be taken to resolve this matter and care taken in future years to ensure these regulations are followed. The noncompliance for the 1978 and 1979 budgets could be resolved by the Office of Budget and Program Planning of the State of Montana by contacting the Federal Office of Revenue Sharing and informing them of the noncompliance with Federal regulations and requesting a waiver for the fiscal 1978 and 1979 budgets.

Office of Budget and Program Planning Comments - This office has informed Federal Office of Revenue Sharing officials that no proposed use hearing was held; however, this office is of the opinion that it is not in non-compliance with federal regulations for the following reasons:

1. The requirement to hold a proposed use hearing did not become effective until January 1, 1977.

2. The Montana Constitution in Article VI, Section 9, provides that "....the Governor shall submit to the legislature at a time fixed by law, a budget for the ensuing fiscal period." Section 79-1015, R.C.M. 1974, provides that "....the Governor shall submit said budget to each member of the legislative assembly at the time of the convening of the legislative assembly." The 1977 Legislature convened on January 3, 1977. This, along with the fact that the

Executive Budget recommendations had to be ready for printing in mid-November, 1976, rendered impracticable the calling of a proposed use hearing.

The above response was discussed with officials of the Federal Office of Revenue Sharing. It is noted that the proposed use hearing for the 1981 Biennium budget was held August 4, 1978.

Revenue Sharing Budget Hearing

In instances where the disposition of revenue sharing funds are involved, Federal revenue sharing regulations, subpart B, Section 51.14(g), require that a notice be published in a newspaper of general circulation indicating where and when a summary of the enacted budget will be available for public inspection.

The State of Montana Office of Budget and Program Planning was unable to demonstrate compliance with this regulation.

We recommend the Office of Budget and Program Planning determine whether public notice was published concerning the enactment of the fiscal 1978 and 1979 budgets. If no notice has been published or the office is unable to determine whether notice had been published, the office should consider late publication and notify the Federal Office of Revenue Sharing of their compliance status.

Office of Budget and Program Planning Comments - This office has notified the Federal Office of Revenue Sharing of the above and is in the process of providing the necessary public notification.

Audio Visual and Media Library Receivables

The Agency uses a computerized billing and receivable system for the audio visual and media library fund. Billings and collections derived from this system are also posted to SBAS records.

During our review, we noted a discrepancy existed between the audio visual and media receivable balance as shown on SBAS records and on the in-house computer runs. These two sources have not been reconciled for the past two years.

We recommend procedures be established entailing periodic reconciliations of these receivable balances on a timely basis.

Agency Comments - The accounting bureau has undertaken steps to assure that a reconciliation of the S.B.A.S. records is made monthly to prevent discrepancies between the billing records from O.P.I. data processing and the records of the accounts receivable on S.B.A.S.

Traffic Education Mobile Simulator Funds

Prior to 1978, the Agency accounted for activity associated with the mobile simulators in a Federal and private revenue fund. In response to a recommendation arising from the 1976 audit, the Agency established a revolving account fund to record 1978 activity.

As of the date of our review, the Federal and private revenue fund had a remaining fund balance of $3,049.

We recommend the Federal and private revenue fund account balances be transferred to the revolving account fund and that the Federal and private revenue fund entity be eliminated from the Agency funds.

Agency Comments - We concur in this recommendation. These funds were to be used for the purchase and refurbishment of the mobile simulators with federal funds. Since this money was obtained for this purpose, we agree completely that these funds be transferred to the mobile simulator revolving account so that they may be spent in the maintainance of the simulators.

STATE OF MONTANA

BOARD OF PUBLIC EDUCATION
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PRIOR YEAR RECOMMENDATIONS

There were no recommendations in the 1976 audit report for the State of Montana Board of Public Education.

The State of Montana Office of the Superintendent of Public Instruction is in substantial compliance with recommendations discussed in the 1976 audit report, except as discussed below:

Pricing of Donable Property (page 5 of the 1976 audit report) The Agency is no longer responsible for the activities of this fund.

Appropriation for the Public Instruction Revolving Account (page 7 of the 1976 audit report) - The wording of the 1978 appropriation house bill has not changed. Also, the Agency believes Federal regulations would not permit such a transfer to occur.

Personnel Services (page 8 of the 1976 audit report) - The State's policy concerning accrual of vacation and sick leave benefits has not changed since this recommendation was issued.

Property Taxes (page 9 of the 1976 audit report) - No procedures have been instituted at the State level to provide additional control over uncollected property taxes which are due to the State.

Fixed Assets (page 10 of the 1976 audit report) - Compliance status concerning this recommendation is discussed in the Memorandum of Suggested Improvements in Accounting Procedures and System of Internal Control section of this report.